

23 December 2025

Hayden Glass
General Manager, Wholesale and Supply
Electricity Authority
PO Box 10041
WELLINGTON 6143

Sent via email: market.making@ea.govt.nz

Dear Hayden

Strengthening price discovery in the forward electricity markets

1. This is a submission from the Major Electricity Users' Group (MEUG) on the Electricity Authority's (Authority) consultation paper "*Market making review: strengthening price discovery in the forward electricity markets*"¹ published on 14 November 2025.
2. MEUG members have been consulted on the approach to this submission. This submission does not contain any confidential information and can be published on the Authority's website unaltered. Members may lodge separate submissions.
3. MEUG's comments are focused on the proposed amendments to ASX-traded baseload contracts. We have not commented on the proposals relating to super-peak contracts or the other enhancements discussed in this consultation paper.

Concern with extending longer-dated futures given issues with risk premium

4. MEUG **does not support increasing the market-making requirements for quarterly ASX-traded baseload contracts from three to five years**. While we support improving price discovery in general, we do not believe this change will be beneficial for electricity consumers until the Authority addresses the underlying risk premium incorporated into current ASX prices.
5. The Authority has set out a number of benefits that are possible from extending the duration of ASX baseload contracts, including stronger price signals, enhanced transparency, and support for long-term financing driving more predictable future pricing.² We agree that there are a number of parties who are moving to longer term electricity supply arrangements overall (though not necessarily hedge contracts)³ and that a reliable longer duration curve would ideally be useful for informing longer duration over-the-counter (OTC) contracts. These benefits, albeit quantified as minor by Concept Consulting, are all commendable and able to be achieved without a formal Code amendment.

¹https://www.ea.govt.nz/documents/8613/Market_making_review_strengthening_price_discover_is_the_forward_electricity_markets.pdf

² Table 5, consultation paper

³ For example, Visy has signed a [long-term PPA](#) with Mercury, and NZ Steel has a 11 year, 50 MW [supply agreement](#) with Contact Energy.

6. However, MEUG strongly considers that realisation of these benefits will not be possible until the Authority addresses the underlying risk premium incorporated into current ASX prices. We have long raised⁴ our concerns about the risk premiums that we see present in futures pricing – prices have been elevated above long run marginal cost (LRMC) / levelised cost of electricity (LCOE) since 2018, and the futures contracts appear to be pricing dry year risk (and overall fuel scarcity⁵) into every upcoming quarter, regardless of history showing the low probability of two consecutive dry years.
7. The ASX futures prices are then subsequently used for OTC negotiations, where customers are observing retailers' price in even further risk – i.e. due to location of the contract (locational risk) and credit worthiness of the buyer. We set out below examples of recent contracts and future prices, against cost of supply.

Figure 1: Gentailers' retail price offers (ex-network costs) and cost of supply⁶

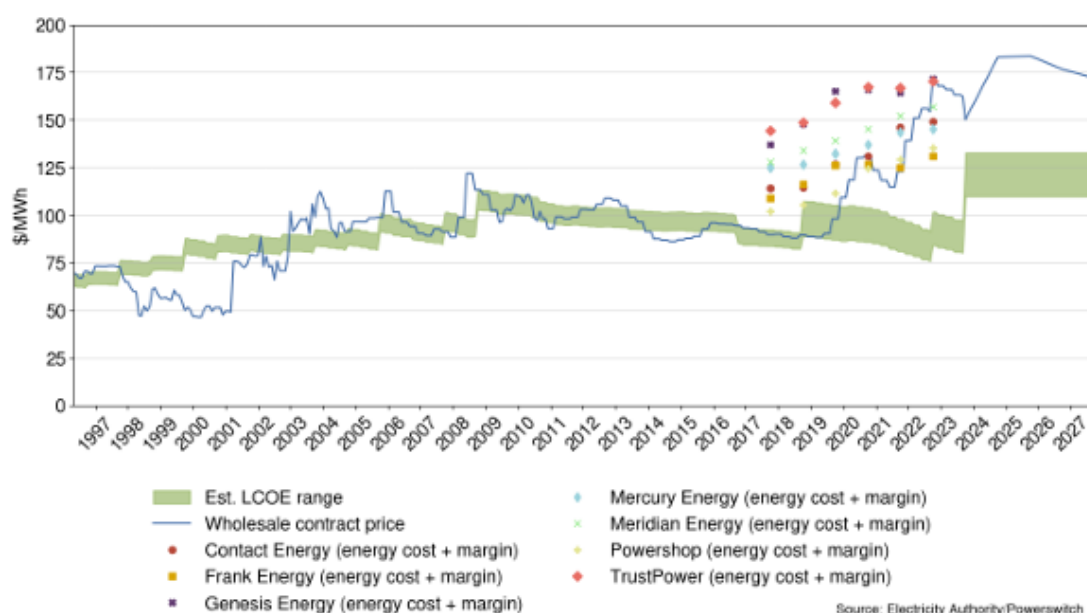


Figure 2: Electricity futures at Otahuhu for 2026 – 2029, changes in recent periods⁷

Electricity Future Price (\$/MWh)									
Calendar Year	OTA CAL		Weekly Change (5 days)		% Change		Monthly Change (20 days)		% Change
2026	\$171.92	↑	\$1.02	↑	0.59%	↓	-\$19.23	↓	-11.19%
2027	\$181.13	↓	-\$1.39	↓	-0.77%	↓	-\$2.22	↓	-1.23%
2028	\$173.48	↓	-\$1.34	↓	-0.77%	↑	\$2.61	↑	1.50%
2029	\$166.21	↑	\$1.31	↑	0.79%	↑	\$4.09	↑	2.46%

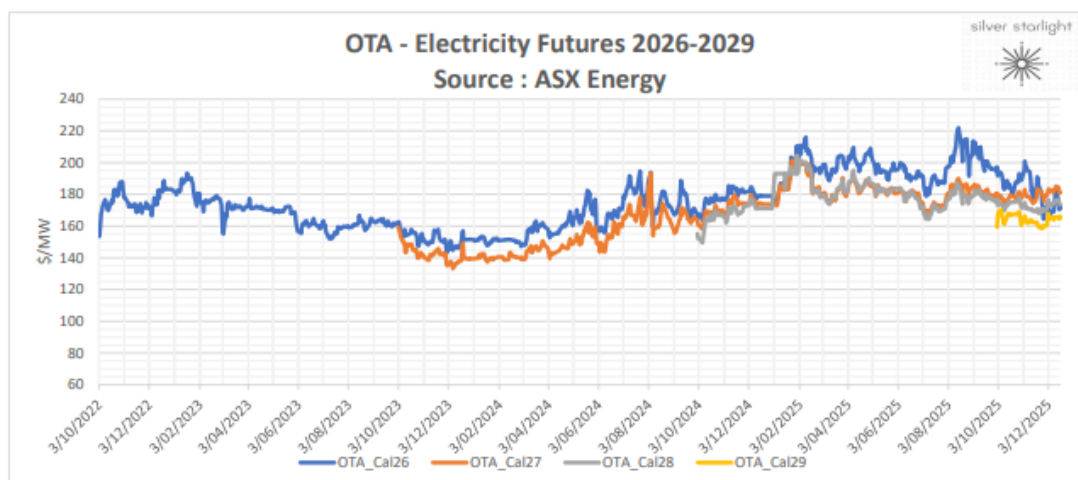
Price Effective: 17/12/2025

⁴ MEUG notes that the Authority has defined LRMC and LCOE as two different approaches, but notes that stakeholders often use the terms interchangeably. Establishing an agreed definition for monitoring would be a useful step to anchor future discussions.

⁵ Primarily scarcity of natural gas for thermal generation in recent years.

⁶ Copy of Figure 3, [Level playing field measures](#), Electricity Authority consultation paper, 14 October 2025.

Figure 3: Electricity futures at Otahuhu for 2026 – 2029⁷



8. With the incorporation of all these risk factors, consumers have been facing elevated and inefficient prices since 2018. This concern was recently been discussed in the Ministry of Business, Innovation and Employment's (MBIE) Cabinet paper on the "*Government response to review of electricity market performance*", where officials noted to the Minister and Associate Minister of Energy:

This scarcity is already priced into ASX forward contracts, with an estimated \$50/MWh risk premium — a premium that will remain unless a credible strategy secures investment that addresses the dry-year risk.

9. We consider that if the Authority proceeds with extending baseload contracts out to five years, this will further embed this risk premium into future contracts, at the detriment of consumers purchasing these contracts or purchasing contracts that are priced off the ASX. There is no evidence longer-dated contracts will bring hedge prices closer to the cost of new renewable generation / LCOE and the quantifiable benefits of this proposal are certainly marginal.
10. The Infometrics report provided with this consultation paper states that "*ASX prices do not seem to be efficient (in the econometric sense) estimators of spot prices, particularly since September 2018...*". The Infometrics report further links this to
- "...unexpected movements in the spot price than to any flaw in how ASX market operates. This in turn may be attributable to the wider electricity market being insufficiently competitive" and this "...clearly merits further research."*⁸
11. This quote, along with the observation in the report that ASX prices are an unbiased but inefficient (large standard deviation) estimator of spot prices, supports the proposition that the benefits lengthening the futures maturity for which there is compulsory market making from three to five years are modest.
12. In addition, MEUG considers that the Infometrics findings suggest that the Authority are looking at a secondary problem, rather than addressing the core issues in the market – why futures prices trade at a premium to LRMC / LCOE. We recognise that assessing the cost of firming new renewable generation is a complex task. However, we suggest that whether the current premium represents a competitive market outcome and what market structure will determine

⁷ Data from Silver Starlight (subscription) utilising ASX Energy data.

⁸ Page 2, [Exploration of the Relationship between ASX Prices and Spot Prices](#), Infometrics report to Electricity Authority, 11 August 2025.

the cost of firming as reliance on wind and solar generation increases are key issues for electricity users.

13. The Authority and the broader Government do have levers around addressing scarcity / security of supply issues and this drove much of the actions set out the Government's Energy Package in October 2025.⁹ Actions 1.1 (a LNG import facility) and 2.5 (regulatory framework for addressing dry year risk) are particularly focused on these issues. We strongly recommend that this work be a key focus for the next phase of the Energy Competition Task Force. Addressing the core issues in the electricity market should lead to less uncertainty, which is essential for producing a more efficient market.

Reducing size of baseload contracts not beneficial

14. MEUG does not support the Authority's proposal to reduce total baseload offer volume requirements from 12 MW to 10 MW per contract.
15. The Authority considers the proposal is merited, as "*analysis of baseload contracts shows that current volume obligations may exceed market demand*"¹⁰ and that "*in jurisdictions with similar annual electricity demand, effective price discovery is achieved with lower quoting volumes.*"¹¹ We disagree with the Authority's conclusions around supply and demand in the New Zealand market.
16. We consider that demand for ASX baseload contracts is constrained, and the volume traded currently low, due to the factors we have discussed above – that market participants do not have confidence in the pricing of ASX baseload contracts, due to the inclusion of an excessive risk premium. If the Authority proceeds with the proposal, MEUG considers that there is a risk that reducing supply may lead to upward pressure on the prices of baseload contracts and extend the period for which excessive risk premia are included in market prices.

Next steps

17. MEUG strongly encourages the Authority to take a careful approach, by first ensuring that the Authority addresses the underlying risk premium incorporated into current ASX prices before extending the duration of baseload contracts.
18. MEUG understands that several MEUG members have also made submissions on this paper and therefore, we would welcome further discussion with Authority staff in early 2026. To set up a meeting or if you have any questions regarding our submission, please contact MEUG on 027 472 7798 or via email at karen@meug.co.nz.

Yours sincerely



Karen Boyes
Major Electricity Users' Group

⁹ [At a glance: New Zealand's Energy Package](#), October 2025, MBIE.

¹⁰ Paragraph 6.51 of the consultation paper.

¹¹ Paragraph 6.52 of the consultation paper.